

Presentation For
The Federal Acquisition Advisory Panel

CONTRACTING FOR SERVICES

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Contracting Explosion

	<u>1997</u>	<u>2004</u>
Multiple Award Schedules	\$ 5.5 billion	\$ 32.5 billion
Federal Technology Service	2.5 billion	8.5 billion
Public Buildings Service	5.0 billion	8.0 billion

Over 65% of these \$49 billion in contracts are for services.

Reasons for Contract Growth

- Reduction of more than 400,000 civilian personnel during 1990s.
- Technology moved to the desktop and the WEB.
- Older information systems need replacing.
- Skills to meet mission requirement unavailable in-house.
- National defense and military requirements mushroom.

10 Years of Change

- **Fewer Procurement Staff.**
- **Do more with less.**
- **Satisfy the customer.**
- **Deliver ahead of schedule.**
- **Increase business volume \$\$\$.**

10 Years of Change

- **Federal Acquisition Streamlining Act**
- **Clinger-Cohen Act**
- **Services Acquisition Reform Act**

I'm running as fast as I can just to stay
in P.I..a..c... e !!



Procurement personnel are having difficulty adjusting to newer procurement regulations and new customer demands, while trying to run like a business within the confines of government environment that has competing priorities.

Commercial Items

- Services of a type that have been offered for sale in the commercial marketplace are commercial items.
- Labor rates proposed are to include wages, benefits, and overhead. However, there is not a standard to define what costs are included or even to require the contractor to disclose what is included in the rate.

Commercial Items

- Many contractors sell only to the government.
 - In fact, many now set up a separate corporation or division to do government business.
 - Some refuse to disclose commercial customer data.
 - Some say the government does not buy the way the private sector does.
- Pricing is difficult to assess for companies doing only government business. Same job title for other firms on same contract Schedule have different standards.

TITLE: Systems Project Manager

Company	A	\$ 175	per hour
	B	115	per hour
	C	92	per hour

Commercial Items

- Contracting Officers may not be able to evaluate other direct costs, especially items that may already be in the labor rate.

(Few procurement personnel understand accounting.)

- Contracting Officers need a clear understanding of what other direct costs are – ODCs sometimes do not appear to be in direct support of a service or eclipse the value of the service.

Run Like A Business

- Most business arrangements for services call for the purchase of an outcome. Pricing tends to be fixed or based on some formula.
- Our 2003 survey of Federal Supply Schedules users in four agencies received 1976 responses pertaining to task orders for services totaling \$2.4 billion.

Found:

- Only 1/3 of contracts were awarded on a firm fixed price basis.
- Only half of all orders valued at \$10 million or more achieved lower labor pricing, even though price reductions should be anticipated with individual orders above \$500,000.
- Of those using blanket purchasing agreements, 81% obtained better pricing, but this format was used only 14% of all awards.

Run Like A Business

- More recent studies of 523 Federal Technology Service contract awards, valued at over \$5.4 billion, found:
 - ✍ 58% of all awards were inadequately competed.
 - ✍ Of those solicitations open to competition, 1/3 of the orders representing 53% of the aggregate sales dollars received only one bid.
 - ✍ Over 60% of all orders were awarded on a time and materials basis. The government carries all the risks.

Run Like A Business

Keep Customer Happy

Earn a Profit

Keep Costs Low to Earn More Profit / Stay
Competitive

Many Government Customers

- **Mission Focused**
- **Have a Budget for the Required Service**
- **Often Have Previous Experience with a Vendor and are Satisfied or,**
- **Looking to Replace a Workforce that was Down-sized**

Subtle Message to Procurement Office

Get Me Who I Want

When I Want Them

Just Keep Me Within Budget

And Let Me Do My Mission Work

OR

What I Need Are Personnel Here 24 / 7

Having The Skills to Do

Whatever Comes Through The Door

(Replace a Workforce That Was Down-sized)

- **If You Can't Do That, I Will Just Go to Another Procurement Shop Who Can.**

Procurement Shops

Must Earn Fees or Go Out of Business

While procurement personnel still want to do a professional job for the taxpayer as well as the Client Agency, we have seen many awards that go beyond bending the rules.

Examples

- Using the non-competitive small disadvantaged business program to make sole source awards for the small firm to pass the actual work and 95% of the funds to a larger firm.
- Making small dollar contract awards of short duration and then modifying them in terms of scope and value:
In one case, a 3-month \$200,000 award was modified 9 times over 4 years and grew in value to over \$81,000,000.

We have identified Contract Awards Where:

- The Client Agency told the Contracting Center who to hire.**
- The Contractor prepare the “independent government estimate of cost” for its contract.**
- The Contractor brought the Client Agency to the Contracting Center and then developed the contract.**
- The “competitors” for the contract all become sub-contractors to the eventual winner.**
- 90% of the contract’s value was for services or equipment not part of the original contract’s scope nor were the add-ons evaluated for price reasonableness.**

Potential For Fraud

- Once the Contracting organization permits one party to control the entire procurement process, it greatly increases the exposure to fraud and abuse.
- Military Contact Liaison Office for a base in Korea was headed by a Colonel who demanded bribes from all contractors. Because the contracting officers allowed the Colonel to have final say over awards, he took well over \$700,000 in bribes before being caught and convicted.

Governmentwide Acquisition Contracts

- Sound concept to select the “best of the best” contractors in their respective area of expertise ready to bid on specific projects when defined.
- Effective in helping agencies meet mission needs.
- Often the notion of spirited competition is not achieved. In about 1/3 of awards only 1 bid received.
- Many awards are crafted without a specific objective defined. Rather a laundry list of services and functions to be performed over a period of years, often awarded on a time and materials basis using source selection methodology. Outsourced workforce.

Performance Based Contracting

We have seen little in the way of performance-based contracts.